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Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**FINANCIAL ACCOUNTING FOR THE CHEMICAL
AGENTS AND MUNITIONS DESTRUCTION,
DEFENSE APPROPRIATION**

Report No. 97-160

June 13, 1997

Department of Defense

ARI 00-01-0218

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Acronyms

CAMD	Chemical Agents and Munitions Destruction, Defense
CFO	Chief Financial Officers
DFAS	Defense Finance and Accounting Service
DFAS-APG	Defense Finance and Accounting Service Aberdeen Proving Ground
PMCD	Program Manager for Chemical Demilitarization



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 13, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Financial Accounting for the Chemical Agents and
Munitions Destruction, Defense Appropriation (Report No. 97-160)

We are providing this report for information and use. The audit was performed in response to the Chief Financial Officers Act of 1990 as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

The comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson, Audit Program Director, at (703) 604-9582 (DSN 664-9582) or Mr. Marvin L. Peek, Audit Project Manager, at (703) 604-9587 (DSN 664-9587). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-160
(Project No. 7RD-2004)

June 13, 1997

Financial Accounting for the Chemical Agents and Munitions Destruction, Defense Appropriation

Executive Summary

Introduction. Public Law 103-356 requires DoD to provide audited financial statements for FY 1996 to the Office of Management and Budget. Financial data from the Chemical Agents and Munitions Destruction, Defense (CAMD) appropriation is included in the category "Other Defense Organizations" in the consolidated financial statements for DoD. The Program Manager for Chemical Demilitarization received \$656.0 million in direct funding during FY 1996 and reported \$859.3 million in assets, \$13.3 million in liabilities, and \$510.7 million in operating expenses to the Defense Finance and Accounting Service for FY 1996.

Audit Objective. The overall audit objective was to assess management controls and compliance with laws and regulations to produce accurate information for financial statements required by the Chief Financial Officers Act. Also, we reviewed supporting documentation for FYs 1996 and 1997 account balances for the CAMD appropriation and tested accounting transactions to validate the effectiveness of accounting operations and controls.

Audit Results. The accounting records for the CAMD appropriation did not contain accurate financial information. Inaccuracies included:

- o up to \$555.1 million in assets that were not capitalized in the accounting records, and
- o invalid unliquidated obligations and liabilities totaling \$1.7 million.

As a result, financial information produced and reported by the Defense Finance and Accounting Service for the CAMD appropriation could not be relied on to prepare accurate financial statements required by the Chief Financial Officers Act. Also, the \$1.7 million in invalid obligations and a duplicate progress payment to a contractor could have been put to better use. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Program Manager for Chemical Demilitarization review and determine the cost of real property and capital equipment, establish procedures to identify and properly code acquisitions to be capitalized, maintain subsidiary property books for all capital acquisitions, and establish management controls for evaluating the accuracy of capitalized assets. In addition, we

recommend that the Defense Finance and Accounting Service include in the general ledger the appropriate costs for capital equipment, construction in progress, and real property; reconcile contract payment files; and validate and reconcile travel-related liabilities, other accounts payable, and unliquidated obligations on a periodic basis to assure that they are accurate and supported by subsidiary records.

Management Comments. The Army and the Defense Finance and Accounting Service fully concurred with all recommendations and stated that corrective actions have been or would be implemented. See Part I for a discussion of management comments and Part III for the complete texts of the comments.

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Part I - Audit Results

Audit Background

The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) requires Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. Financial data from the Chemical Agents and Munitions Destruction, Defense (CAMD) appropriation is included in the "Other Defense Organizations" category of the consolidated DoD financial statements. During FY 1996, the Program Manager for Chemical Demilitarization (PMCD) received \$656.0 million in direct CAMD funding. The CAMD appropriation includes operation and maintenance, research and development, and procurement budget activities. As of September 30, 1996, the PMCD reported \$859.3 million in assets, \$13.3 million in liabilities, and \$510.7 million in operating expenses for FY 1996 to the Defense Finance and Accounting Service (DFAS) Indianapolis Center. The DFAS Indianapolis Center used that financial information to prepare the FY 1996 financial statements.

Chemical Demilitarization Program. On October 1, 1985, Public Law 99-145, section 1412, "Destruction of Existing Stockpile of Lethal Chemical Agents and Munitions," directed the DoD to destroy the stockpile of lethal chemical agents and munitions. In addition, section 1412 required the Secretary of Defense to establish the PMCD within the Department of the Army during FY 1986.

Overview of the PMCD. The PMCD is responsible for managing the Chemical Stockpile Disposal Project and the Non-Stockpile Chemical Disposal Project. The Chemical Stockpile Disposal Project has an estimated life-cycle cost of about \$12.4 billion. Nine chemical agent disposal facilities are being built to support that project. Two disposal facilities are completed and in operation. The Non-Stockpile Chemical Disposal Project has an estimated life-cycle cost of about \$15.2 billion. The non-stockpile chemicals are located at 35 sites within the United States.

Disposal Facility Acquisition Strategy. The PMCD has developed a standardized strategy to acquire, install, and maintain equipment for the nine chemical disposal facilities being built. An equipment acquisition contractor procures the majority of the equipment required for each facility. Once the equipment is procured, it is provided as Government-furnished property to the systems contractor. The systems contractor installs and tests the equipment in the facility. After the equipment is installed and tested, the systems contractor operates and maintains the facility.

Local Accounting Support. The PMCD receives accounting support from a local DFAS Indianapolis Center office at Aberdeen Proving Ground. The PMCD is responsible for certifying the availability of funds and for recording the proper cost detail code on the accounting documents. DFAS Aberdeen Proving Ground (DFAS-APG) uses a cost detail code to accumulate costs for various cost centers and to determine the appropriate general ledger account to

post. The DFAS-APG also performs daily accounting functions and maintains accounting records for the PMCD. The DFAS-APG prepares monthly financial and budgetary reports and forwards them to the DFAS Indianapolis Center. The DFAS Indianapolis Center uses those financial and budgetary reports to prepare the DoD consolidated financial statements.

Accounting Systems Used by the DFAS-APG. The DFAS-APG uses the "Test, Evaluation, Analysis, and Management Uniformity Plan" accounting system to provide accounting support for PMCD. That accounting system contains various accounting programs that perform specific accounting functions. Accounting technicians enter commitments, obligations, and accruals into the cost accounting subsystem using an expenditure order number. Costs are accumulated by expenditure order number and are periodically transferred to the appropriation fund accounting subsystem using batch processing. Accounting technicians enter disbursement data directly into the appropriation fund accounting subsystem. By using expenditure order numbers, the technicians can match accruals and disbursements and DFAS-APG can maintain management control over orders being processed within the entire accounting system. Accounting technicians produce monthly general ledger and budgetary reports from accounting data in the appropriation fund subsystem.

Audit Objective

The overall audit objective was to assess management controls and compliance with laws and regulations to produce accurate information for financial statements required by the CFO Act. Also, we reviewed supporting documentation for FYs 1996 and 1997 account balances and tested accounting transactions to validate the effectiveness of accounting operations and controls. Appendix A discusses the audit scope and methodology and the review of the management control program. Appendix B provides details on related prior audit coverage.

Financial Accounting and Reporting

The DFAS-APG accounting records for the CAMD appropriation did not contain accurate financial information. Accountable records and reported information were inaccurate because:

- o the PMCD did not follow DoD capitalization criteria to record and report equipment purchases totaling up to \$555.1 million, and

- o the DFAS-APG did not validate and reconcile the accounts payable and unliquidated obligation balances in a complete and timely manner.

As a result, DFAS-APG reported inaccurate financial information for use in the DoD consolidated financial statements. Also, \$1.7 million in unliquidated obligations and a duplicate payment to a contractor could have been put to better use.

Recording Real Property and Capital Equipment

The PMCD did not follow DoD capitalization¹ criteria in accounting for and recording real property and capital equipment purchases. As of September 30, 1996, the value of real property and capital equipment accounts in the general ledger was zero. The PMCD coded all purchases as "expenses" regardless of whether the costs met or exceeded the capitalization criteria. Based on information provided by the PMCD, the real property, construction in progress, and equipment accounts may be understated by as much as \$555.1 million at the end of FY 1996. From FYs 1988 through 1996, the PMCD disbursed \$550.3 million in procurement funding to support the Chemical Stockpile Disposal Project and \$4.8 million to support the Non-Stockpile Chemical Disposal Project. In addition, the PMCD reported \$130,392 for capital equipment located at PMCD headquarters; however, the DFAS-APG did not properly record and report that equipment.

Accumulating Facility Costs. The PMCD had not established procedures to accumulate the costs of equipment acquired for and installed in the disposal facilities. Equipment installed in the disposal facilities becomes an integral part of the building and normally cannot be removed without dismantling the property. Therefore, the equipment should be considered real property.

¹Property purchased is "capitalized" when it is recorded as an asset in financial accounting records. (The cost of property not capitalized is recorded as a current operating expense.) The DoD capitalization threshold was increased to \$100,000 in FY 1996.

Accounting for Real Property Construction Projects. According to DoD 7000.14-R "DoD Financial Management Regulation," volume 4, "Accounting Policy and Procedures," costs for real property construction projects that meet DoD capitalization criteria should be accumulated in a Construction in Progress account. The costs that accumulate in that account include direct labor, direct material, purchased services, and overhead costs. In addition, subsidiary accounts are needed to accumulate the cost of each facility. The Regulation states that the accumulated costs for each facility be transferred from the Construction in Progress account to the applicable real property accounts at the completion of the facility.

Costs of Disposal Facilities. As of September 30, 1996, the PMCD had obligated \$893.9 million for equipment acquisitions for the nine chemical disposal facilities;² \$550.3 million of the obligations had been disbursed. To determine whether the procurements should be capitalized, we reviewed procurements for the Chemical Stockpile Disposal Project with obligations totaling \$268.6 million or 30 percent of the total obligations incurred as of September 30, 1996. PMCD personnel had coded all those procurement obligations as items to be expensed, and DFAS-APG had recorded disbursements of \$31.5 million related to those procurements as expenses on the accounting records. All the procurements for the facilities should have been capitalized because:

- o the equipment installed in a facility becomes an integral part of the facility, and
- o the overall cost of each facility exceeds the capitalization threshold of \$100,000.

The PMCD needs to identify the equipment costs for each facility and establish an accounting code to account for those costs in a Construction in Progress account. Because the PMCD was coding the accounting documents with expense codes, rather than as real property being constructed, the DFAS-APG did not have Construction in Progress accounts established for the PMCD. The costs for completed facilities should be transferred from the Construction in Progress account to a real property account. Recording of costs in the Construction in Progress and real property accounts will bring the costs under financial control and segregate them from expense accounts.

Recording Capital Equipment. The PMCD did not have procedures to capitalize equipment that met or exceeded DoD capitalization criteria. The PMCD identified only one piece of equipment as a capital item--a computer server costing \$130,392. PMCD personnel had recorded the server on the PMCD property book and reported the server to DFAS-APG as capital

²The Military Construction funds to construct the buildings for the disposal facilities are not included in the costs of the disposal facilities. DoD provides Military Construction funds to the Army to construct the buildings for the disposal facilities. The PMCD does not account for those Military Construction funds.

Financial Accounting and Reporting

equipment. However, the DFAS-APG improperly recorded the server on the accounting records of the Aberdeen Proving Ground Army Garrison instead of the PMCD accounting records. Because the PMCD benefits from the use of the equipment, the value of the equipment should be recorded on the PMCD accounting records in accordance with the Financial Management Regulation, volume 4.

The PMCD coded all acquisitions as an expense regardless of whether the cost met or exceeded the capitalization criteria. For example, the PMCD purchased equipment to support a transportable disposal facility for \$1.1 million to be used as part of the Non-Stockpile Chemical Disposal Project. As of September 30, 1996, the PMCD had disbursed \$4.8 million for the Non-Stockpile Chemical Disposal Project, which included \$1.1 million in equipment that should have been capitalized.

PMCD Management Controls. The PMCD had not established management controls to identify and account for capital equipment acquisitions for the Chemical Stockpile Disposal Project and the Non-Stockpile Chemical Disposal Project. The PMCD identified financial management as a major functional area and performed management control evaluations for the function. However, the PMCD personnel did not include in their management control evaluations questions related to controls and the classification of capital acquisitions because the property was usually held by contractors and was not in the possession of the PMCD. Proper classification and accountability of capital acquisitions are crucial to ensure support of the accounting records DFAS uses to prepare financial statements.

Validating and Reconciling Accounts Payable Balances

The DFAS-APG did not validate and reconcile the accounts payable balance of \$13.3 million as of September 30, 1996, for the PMCD. As a result, the accounts payable balance as of September 30, 1996, was inaccurate. The accounts payable balance was understated by \$908,990 due to a duplicate progress payment to a vendor. In addition, the accounts payable balance (and unliquidated obligations) was overstated by \$756,325 because of invalid accrual entries. The net effect was an understatement of \$152,665 in the accounts payable balance, and the potential unavailability of \$1.7 million (\$908,990 plus \$756,325) that could have been put to better use.

Duplicate Progress Payment. The DFAS-APG did not have procedures in place to prevent and detect overpayments of vendor invoices. The DFAS paid a request for a progress payment of \$908,990 twice. The DFAS paid the invoice initially on July 21, 1995, and made a second payment on August 29, 1995. Accounting personnel at DFAS-APG did not detect the overpayment because they did not perform account reconciliations. We told DFAS-APG officials on November 20, 1996, about the duplicate payment, and accounting personnel

took immediate action to collect the overpaid funds. Overpayment of a liability created a negative account payable, which could have prevented the PMCD from using those funds to pay valid liabilities.

Overstatement of Liabilities and Obligations. The DFAS-APG overstated the accounts payable balance and unliquidated obligations by \$756,325. The overstatement occurred because accounting personnel did not validate and reconcile travel-related liabilities and contract payment files. As a result, the PMCD lost the opportunity to use those funds for new obligations.

Invalid Liabilities for Travel. Recorded liabilities of \$277,300 as of December 4, 1996, for travel-related liabilities were invalid and not supported. Those liabilities had been outstanding in the accounting records from 180 to 1,448 days. The liabilities remained on the general ledger because accounting personnel did not remove the excess costs (the difference between estimated travel costs and actual costs) when travel vouchers were processed or canceled. Also, accounting personnel did not perform timely reconciliations to validate travel-related liabilities recorded on the accounting records as required by DFAS-Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995. The Regulation states that unliquidated travel liabilities more than 180 days old are to be removed from the accounting records, unless the traveler provides a written response that a settlement is forthcoming.

At our request, in January 1997, DFAS-APG accounting personnel reviewed the validity of travel-related liabilities totaling \$277,300. Accounting personnel determined that the liabilities were not supported and adjusted the accounting records to remove the liabilities. Timely reconciliations would have prevented the overstatement of accounts payable and expense accounts.

Duplicate Liabilities for Contractor Invoices. DFAS-APG personnel did not review and reconcile contract payment files with records in the accounting system. As a result, duplicate liabilities of \$479,025 were recorded on the accounting records. The duplicate liability entries had been on the accounting records for more than 300 days. The DFAS-APG recorded those liabilities in the accounting records during the payment prevalidation process. During the process, disbursing offices contacted the DFAS-APG to prevalidate or certify that funds are available for disbursement. At the time of certification, accounting technicians entered liabilities in the accounting records for the certified disbursement amount. However, the technicians did not record the liabilities in the contract payment files. When the DFAS-APG received the actual disbursement vouchers from the disbursing offices, accounting personnel entered duplicate liability entries of \$479,025 in the accounting records, because the contract payment files did not show that previous liabilities had been posted.

DFAS-APG Management Controls. The DFAS-APG did not have adequate management controls over accounts payable records to ensure that complete and timely reconciliations of the accounts payable balance are performed. During FYs 1995 and 1994, DFAS-APG quality review analysts performed quality assurance reviews of the accounts payable balances. At the conclusion of those reviews, the analysts made recommendations to DFAS-APG management to

validate the travel-related liabilities. Although management concurred, the travel-related liabilities were not validated. Management controls over the performance of account reconciliations are necessary to maintain the accuracy and integrity of the accounting system.

Recommendations and Management Comments

1. We recommend that the Program Manager for Chemical Demilitarization:

a. Review and identify all equipment acquisitions that meet or exceed the DoD capitalization criteria for inclusion in the general ledger, determine the value of real property acquisitions for each disposal facility to be recorded in the Construction in Progress or other real property accounts, and determine the value of capital equipment to be recorded.

b. Establish procedures to ensure that all capital acquisition costs are:

(1) Coded as construction in progress costs or capital equipment.

(2) Recorded in accounting and supporting property records.

(3) Transferred to a real property account at the completion of the disposal facility.

c. Tailor management control evaluations to include specific questions and management control objectives necessary to assess the accuracy, reliability, and supportability of property records.

Management Comments. The Army concurred and provided detailed plans and procedures to identify and ensure that all capital acquisition costs are properly recorded in accounting records.

2. We recommend that the Defense Accounting Officer, Defense Finance and Accounting Service, Aberdeen Proving Ground Office:

a. Record in the general ledger the construction in progress, real property, and capital equipment costs using financial data provided by the Program Manager for Chemical Demilitarization.

b. Reconcile all contract payment files with the cost accounting system on a periodic basis to ensure that payment files are accurate and that no duplicate liabilities, obligations, or disbursements exist.

c. Validate and reconcile travel-related liabilities and other accounts payable, and remove excess obligations and liabilities when payments are

recorded for completed travel vouchers, as required by Defense Finance and Accounting Service Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995.

Management Comments. The DFAS concurred, stating that it would provide transaction codes to record construction in progress, real property and capital equipment costs in the its accounting system. Also, the Defense Accounting Office, Aberdeen Proving Ground, has identified and corrected problems related to contract payment files and mismatches between travel accruals and disbursements.

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Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the PMCD trial balances, produced by DFAS-APG, as of September 30, 1996. We compared the trial balance information with subsidiary records maintained by the PMCD and the adjusted trial balance submitted to the DFAS Indianapolis Center for consolidation into the FY 1996 "Other Defense Organizations" portion of the DoD consolidated financial statements. We performed limited reviews of documentation and transactions supporting balances shown on the general ledger accounts for September through December 1996. The following specific reviews and judgment samples were included in the audit.

- o We reviewed open procurement orders, exceeding \$1.0 million, that totaled \$276.6 million and that were funded with FYs 1994 through 1996 procurement funds to determine whether the procurements should be capitalized.

- o We reviewed the September 30, 1996, trial balance for abnormal balances. We identified a debit accounts payable balance that resulted from an overpayment of \$908,990 to a contractor.

- o We reviewed the December 4, 1996, accounts payable listing of \$9.3 million to determine whether balances were valid. Liabilities (and unliquidated obligations) totaling \$756,325 were invalid and should have been removed from the accounting records.

- o We reviewed the validity of accrued payroll liabilities totaling \$488,936 and accrued annual leave liabilities totaling \$104,765 as of September 30, 1996. Those liabilities were generally in compliance with accounting regulations.

Because this audit was not intended to provide an overall opinion on the reported balances in the financial reports, we did not perform comprehensive reviews or statistical sampling of transactions supporting the general ledger.

Use of Computer-Processed data. We relied on computer-processed data, provided by the PMCD, to determine the estimated value of real property and capital equipment procured by the PMCD during FYs 1988 through 1996. We determined that the obligation and disbursement data on the contracts reviewed generally agreed with the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives.

Our review of accounts payable balances and supporting documentation for the general ledger for the CAMD maintained by DFAS-APG showed that financial

data in the accounting system were unreliable. The data were unreliable because the DFAS-APG had not established the management controls and procedures to review and reconcile data in the accounting system.

Audit Period and Standards. We performed this financial-related audit from November 1996 through February 1997. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, based on the objectives of the audit and the limitations in scope described in this appendix. Accordingly, we included tests of management controls considered necessary.

Audit Contacts. We performed all audit work at the Office of the Program Manager for Chemical Demilitarization and the Defense Accounting Office, DFAS, Aberdeen Proving Ground, Maryland.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of controls.

Scope of Review of the Management Control Program. We reviewed the management controls for the Resource Management Division within the PMCD. In addition, we reviewed the adequacy of the DFAS-APG controls over recording and reporting information in financial accounting records for the CAMD appropriation. Specifically, we evaluated the management and accounting controls over recording and reporting financial information in accountable records and, on a limited basis, the validity of documentation supporting reported information. We also reviewed PMCD self-evaluations of the financial management function.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, for the PMCD. The PMCD had not established procedures and controls to account for and record equipment acquisitions meeting or exceeding the DoD capitalization criteria.

Recommendation 1. in the report, if implemented, will ensure that acquisitions meeting the DoD capitalization criteria will be identified, accounted for, and reported on financial accounting records.

Because the scope of our audit at DFAS-APG was limited to accounting for a single appropriation, we were unable to determine whether the DFAS-APG management control weaknesses were systemic or material. However, the lack of adequate management controls caused funds totaling \$1.7 million from the CAMD appropriation to be overobligated (\$756,325) or paid twice (\$908,990). Those funds could have been put to better use.

Appendix A. Audit Process

Adequacy of Management's Self-Evaluation. The PMCD did not provide coverage of property accountability and reporting in its self-evaluations. The PMCD expensed rather than capitalized property acquisitions meeting or exceeding the DoD capitalization criteria. Therefore, the PMCD did not maintain subsidiary property records for chemical disposal facilities and related capital equipment. Also, the PMCD did not identify and report the material weakness identified by the audit.

Appendix B. Summary of Prior Coverage

Inspector General, DoD

Inspector General, DoD, Report 97-110, "Material Accounting and Management Control Weaknesses in the Defense Agencies' FYs 1995 and 1996 Financial Information," March 17, 1997.* The report summarizes accounting system weaknesses identified during audits of Defense agencies' FYs 1995 and 1996 financial data. The report states that Defense agency FYs 1995 and 1996 accounting system weaknesses were primarily related to four key accounting requirements:

- o general ledger control and financial reporting;
- o property and inventory accounting;
- o system controls (fund and internal);
- o accrual accounting.

The audits also identified Defense agency accounting system weaknesses in six additional key accounting requirements: accounting for receivables, including advances; audit trails; cash procedures and accounts payable; system documentation; system operations; and user information needs. Consequently, general ledger account data were not reliable and may adversely affect the accuracy and reliability of Defense agency financial statements.

The Defense agencies took aggressive actions to correct certain FY 1994 material accounting system and management control weaknesses. However, actions to correct other weaknesses were in process, not started, or may not be completed until FY 1998 at the earliest. The DoD management improvement initiatives will improve the accuracy and integrity of financial and related information. However, several initiative implementation dates have significantly slipped, and key initiatives need to be tested and implemented to fully measure their success. The report contains no recommendations.

*The audit report does not discuss accounting for the CAMD appropriation. However, problems identified at other Defense agencies are similar to problems identified regarding the CAMD appropriation.

Appendix B. Summary of Prior Coverage

Inspector General, DoD, Report No. 94-142, "Report on Antideficiency Act Investigation of Chemical Agents and Munitions Destruction, Defense, Appropriation," June 17, 1994. The report states that no antideficiency violations were found. In January 1991, the Navy certified and properly completed three cross-disbursement vouchers totaling \$4.1 million. However, when the DFAS processed those disbursements, it rejected transactions because the appropriation account was not established in the accounting system. Accounting personnel inappropriately charged the transactions to another appropriation year because the correct appropriation had not been established in the accounting system. The actions taken by the accounting personnel cleared the transaction; however, it caused a negative balance for the appropriation being investigated. The negative balance occurred because DFAS personnel did not follow established procedures when processing cross-disbursement transactions. The report recommends that DFAS follow established cross-disbursing procedures and require that all rejected transactions be corrected within 30 calendar days. The Director, DFAS, concurred with the recommendations and revised policy to resolve or correct rejected cross-disbursement transactions within 30 days.

Appendix C. Report Distribution

Office of the Secretary of Defense

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Deputy Comptroller (Program and Budget)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

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Assistant Secretary of the Army (Research, Development, and Acquisition)
Chemical Demilitarization Program Office
Auditor General, Department of the Army

Department of the Navy

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Other Defense Organizations (Con't)

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Non-Defense Federal Organizations and Individuals

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Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
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Part III - Management Comments

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

28 MAY 1997

SARD-SD

MEMORANDUM FOR IG, DOD (AUDITING), 400 Army Navy Drive, Arlington, VA
22202

SUBJECT: Audit Report on Financial Accounting for the Chemical Agents and
Munitions Destruction, Defense Appropriation (Project No. 7RD-2004)

Reference SAAG-PMF-E (36-2b) Memorandum, April 3, 1997, SAB.

Referenced SAAG-PMF-E memorandum requested a response to subject draft
IG, DOD report. Responses to the recommendations are attached.

A handwritten signature in black ink, appearing to read "John D. Gorrell".

John D. Gorrell
Colonel, GS
Director, Chemical Demilitarization

Enclosure

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IG, DoD Draft Audit Report
Financial Accounting for the Chemical Agents and Munitions
Destruction, Defense Appropriation
Project No. 7RD-2004

Recommendation 1a: Review and identify all equipment acquisitions that meet or exceed the DoD capitalization criteria for inclusion in the general ledger, determine the value of real property acquisitions for each disposal facility to be recorded in the Construction in Progress or other real property accounts, and determine the value of capital equipment to be recorded.

Response: Concur. Internal records will be reviewed to determine equipment acquisitions and their value that are properly chargeable to an asset account. See comments below for further clarification. Target date for completion: Jul 97 through 30 Sep 98.

Recommendation 1b(1): Establish procedures to ensure that all capital acquisition costs are coded as construction in progress costs or capital equipment.

Response: Concur. A policy statement detailing procedures for expense/investment criteria is currently being developed. Appropriate personnel will be briefed on the policy statement after it is finalized. Target date for completion: 30 Jun 97.

Recommendation 1b(2): Establish procedures to ensure that all capital acquisition costs are recorded in accounting and supporting property records.

Response: Concur. The following actions are being taken:

a. Defense Finance and Accounting Service-Aberdeen Proving Ground (DFAS-APG) is establishing asset account(s), transaction codes, and element of cost codes so equipment acquisition costs can be properly recorded in accounting records. Target date for completion: 31 May 97.

b. Internal supporting documentation will be reviewed before the funding document is issued to ensure that appropriate accounting information (expense versus investment) is cited on the request to issue funds. Target date for completion: 30 Jun 97.

Department of the Army Comments

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c. The appropriate accounting classification will be recorded on all new funding documents for equipment. Target date for completion: 30 Jun 97.

d. Transfer costs for equipment acquisitions from expense accounts to an asset account. Amounts for equipment that have been costed and disbursed in the accounting system will be transferred from an expense account to an asset account. The transfers will begin with documents citing an FY90 appropriation and continue through FY97. The transfers will be monitored to ensure the transactions are completed correctly. Target date for completion: 31 Jul 97.

e. To correct amounts for equipment acquisitions that have not been costed and disbursed each funding document will either be amended or costs will be transferred as disbursements are made.

(1) An amended funding document requires a contract modification to correct the accounting classification and the accounting records maintained by DFAS-APG will be modified to reference the corrected accounting classification. The amended funding documents will have to be monitored to ensure the corrections have been made. Target date for completion: 30 Sep 97.

(2) To correct funding documents that have a small balance to be disbursed, costs will be transferred as disbursements are made. Until the funding document is completed a cost transfer will be done each time a disbursement is made. The accounting system will be monitored to ensure the cost transfer was done. Target date for completion: Will be complete when the final disbursement is made.

f. Review property accountability records maintained by contractors to ensure they agree with the accounting records. Reconciliation of property and financial records will be accomplished for each facility. The reconciliation will begin with the Chemical Disposal Training Facility, Anniston and Tooele Chemical Agent Disposal Facilities, and Johnston Atoll Chemical Agent Disposal System. These reconciliations will be performed from May 97 through Sep 98. The remaining disposal facilities will be reviewed as they come on-line. These reconciliations will continue at periodic intervals throughout the life of the disposal facility. Target date for completion: May 97 through 30 Sep 98.

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Recommendation 1b(3): Establish procedures to ensure that all capital acquisition costs are transferred to a real property account at the completion of the disposal facility.

Response: Concur. After the disposal facility is completed, the accounts will be reviewed and capital acquisition costs will be transferred to a real property account. Target date for completion: Within six months of facility completion.

Recommendation 1c: Tailor management control evaluations to include specific questions and management control objectives necessary to assess the accuracy, reliability, and supportability of property records.

Response: Concur. Will gather information from contractors and site project managers on any internal controls that have been established. Checklists will be developed, as necessary, for processes within Program Manager for Chemical Demilitarization for equipment acquisition and added to the management control plan. Training on the management control process will be provided to assessable unit managers and management control administrators on 22 May 97. Target date for completion: 31 Jan 98.

Additional Comments:

a. Equipment acquisitions date back to FY88. Procurement appropriations for FY88 and FY89 are canceled and amounts recorded in these appropriations cannot be changed. Procurement appropriations for FY90 and forward will be reviewed and adjustments made to expense and asset accounts.

b. Amounts cited in the report were correct at that point in time but will change as disbursements are made and obligations are adjusted.

Defense Finance and Accounting Service Comments



DFAS-HQ/AFB

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAY 29 1997

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Draft Audit Report on Financial Accounting for the
Chemical Agents and Munitions Destruction, Defense
Appropriation (Project No. 7RD-2004)

Our management comments on the subject draft audit report are attached. The audit discloses that the accounting records for Chemical Agents and Munitions Destruction, Defense, did not contain accurate financial information. This results in up to \$555.1 million in noncapitalized assets not being reported and approximately \$1.7 million in invalid unliquidated obligations and liabilities being reported in the financial statements.

The point of contact is Ms. Hettye Kirkland, (703) 607-5104.

Richard F. Buschner
for Edward A. Harris
Deputy Director for
Accounting

Attachment:
As stated

CC:
DFAS-IN/PI

SUBJECT: Draft Audit Report on Financial Accounting for the Chemical Agents and Munitions Destruction, Defense Appropriation (Project No. 7RD-2004)

RECOMMENDATION 2.a.: Record in the general ledger the construction in progress, real property, and capital equipment costs using financial data provided by the Program Manager for Chemical Demilitarization.

DFAS COMMENTS: Concur. The DFAS-IN and its Defense Accounting Office at Aberdeen Proving Ground will establish transaction codes to provide the capability to record construction in progress, real property, and capital equipment costs when submitted by the Program Manager for Chemical Demilitarization. However, the DFAS is dependent upon the Components' capability to effectively update the accounting system with the financial transactions in a timely and accurate manner. Estimated completion date: October 31, 1997.

RECOMMENDATION 2.b.: Reconcile all contract payment files with the cost accounting system on a periodic basis to ensure that payment files are accurate and that no duplicate liabilities, obligations, or disbursements exist.

DFAS COMMENTS: Concur. Since November 1996, DFAS-IN and its Defense Accounting Office at the Aberdeen Proving Ground have applied a significant level of resources to the reconciliation of the Chemical Demilitarization contracts to ensure that transactions relating to all open files have been properly recorded. Subsequent reviews of open contract payment files will be accomplished. This recommendation is considered completed.

RECOMMENDATION 2.c.: Validate and reconcile travel-related liabilities and other accounts payable, and remove excess obligations and liabilities when payments are recorded for completed travel vouchers, as required by Defense Finance and Accounting Service Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995.

DFAS COMMENTS: Concur. The DFAS-IN and its Defense Accounting Office at the Aberdeen Proving Ground have been making a thorough review of the open cases relating to travel and non-travel related liabilities. Numerous mismatches between accruals and disbursements were identified, corrected, and subsequently moved to closed files. This recommendation is considered completed.

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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